OPTIONS FOR YOUR FINANCIAL GIVING
A COMPARISON OF PHILANTHROPIC GIVING STRUCTURES FOR INDIVIDUALS AND FAMILIES

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This information is provided by Ask CMF, a technical assistance service of the Council of Michigan Foundations, for educational purposes only and does not constitute legal advice.

Individuals, families and companies regularly reach out to CMF to learn how they can give back to their communities through philanthropy. This typically takes three forms: giving back with your time (volunteering), giving back with your talent (offering your expertise) and giving back with your treasure (making a financial contribution). This resource focuses on financial contributions, as there are a number of options available to individuals and families, each with important distinctions.

Companies interested in exploring their options for giving as an organization (starting a corporate foundation or corporate giving program, etc.) are invited to view our separate resource, “Choosing a Corporate Approach: A Comparison of Corporate Philanthropy Structures.”

There are three primary forms of philanthropy available to individuals and families that are discussed in this resource:

• Making a direct contribution.
• Creating a Donor Advised Fund (DAF).
• Starting a foundation.

Before considering the philanthropic options outlined here, it is important to note:

• Donors should consult with qualified counsel to ensure their intended wishes can be achieved through the philanthropic giving option of their choice.
• Any one of these approaches can be used in isolation, but these structures can also be combined. Philanthropists often have a portfolio of giving that includes support for several organizations and use various giving strategies that meet their unique goals.
• Gifts made via the options discussed in this resource are considered irrevocable, a key piece of the criteria to meet IRS qualifications required to take a charitable gift deduction.
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TYPES OF GIVING OPPORTUNITIES

Individual Giving: Individuals and families can make charitable donations directly to 501(c)(3) charities and other organizations that carry out mission-oriented work in local communities or within a geographic region (statewide, national or international). Gifts may be in the form of cash, assets, planned giving options or other forms of contributions that are acceptable to charitable institutions, including community foundations. (See “What is a community foundation?” and “How can I learn more before giving a donation to a nonprofit?”)

Advantages: High level of flexibility to give to a wide array of organizational types. No minimum level of philanthropic activity. Tax advantages are reflective of individual income and wealth vehicles.

Disadvantages: May be considered inefficient to make significantly-sized gifts or for the purpose of intergenerational philanthropy.
**Donor Advised Fund (DAF):** A DAF is housed at an external “sponsoring organization” such as a community foundation. Individuals making gifts to DAFs can receive tax advantages for their gifts, similar to other forms of charitable giving. Donors may use their DAF to make periodic distributions to qualified charitable organizations. All donations are legally subject to the approval of the sponsoring organization that holds the DAF.

**Advantages:** Relatively easy to establish within a sponsoring charitable organization, which also manages specific back office functions of grantmaking (i.e. processing grants, sending funds to grantees). Limited administration and no required tax returns. Community foundations and other sponsoring organizations offer community-based knowledge and grantmaking expertise to recommend new charitable organizations to DAF holders to meet their philanthropic goals.

**Disadvantages:** Donors have limited control to advise where these donations will be made, depending upon the rules of the sponsoring organization, many of which do not permit grants to non-charities or to charities that may be seen as “controversial.” Control is held by the supporting organization. Direct scholarship grants are only permitted if donor/advisors and related parties do not control the selection committee. Donor influence is restricted to approximately two generations beyond establishment of fund.

**Starting a Grantmaking Foundation:** A grantmaking foundation funded by an individual or family is considered a private foundation. Private foundations are typically funded via periodic infusions of resources from the donors and then use a traditional grantmaking cycle (i.e. quarterly, annual) to distribute grants. In some cases, families will create or fund a foundation due to the sale of a business, death of a loved one or other exceptional events that result in a large infusion of resources. Donors (and board members) may be directly involved in the foundation’s activities and can control the foundation’s investments and grantmaking. However, private foundations are strictly regulated by the IRS, including a required 5% payout rate and there are prohibitions on self-dealing.

**Advantages:** Permits direct awarding of scholarships and management of tax-efficient giving. Allows for giving in perpetuity and donor control over grantmaking decisions.

**Disadvantages:** As a separate entity, the foundation requires insurance, audits, etc. and is subject to private foundation restrictions. (See “What is a private foundation?”)
## A COMPARATIVE CHART OF PHILANTHROPIC GIVING OPTIONS

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<th>Individual Giving</th>
<th>Donor Advised Fund</th>
<th>Grantmaking Foundation</th>
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<tr>
<td><strong>Legal Structure</strong></td>
<td>No formal legal structure is required. Planned giving vehicles, such as a charitable remainder trust or charitable lead trust, may require external counsel to establish.</td>
<td>The sponsoring organization has ultimate “discretion and control” of the funds once they are donated. Donors can advise regarding fund recipients but do not have legal control over them or ownership of them.</td>
<td>As a distinct organization, the foundation is responsible for all legal and tax requirements of a private foundation.</td>
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<td><strong>Lifespan</strong></td>
<td>Gifts are made within the donor’s lifetime or via planned giving vehicles.</td>
<td>DAFs typically last for two generations beyond the original donor. After this point they are typically absorbed into the sponsoring organization’s general or category-based funds.</td>
<td>A private foundation may exist in perpetuity or be designed to make all grants within a set period of time.</td>
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<tr>
<td><strong>Leadership</strong></td>
<td>Decisions are made by the donors and advisors, such as qualified financial and legal counsel.</td>
<td>A donor can serve as an advisor to the fund, with the ability to recommend grants from the DAF. Depending on the sponsoring organization’s existing policies, the advisor may also make recommendations regarding the general investing strategy for the fund. DAFs have specific rules that restrict any benefit to DAF holders including the donors, their family members, advisors and other related entities.</td>
<td>A private foundation is led by a distinct board of directors. Directors and officers must act in the best interest of the foundation. The board may designate staff to carry out responsibilities for the foundation. (See “Can a private foundation hire staff?” and “Can family members participate in a private foundation’s grantmaking?”)</td>
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No administrative costs are required. External counsel may be required to develop a tax-efficient strategy for philanthropic giving.

**Administrative Costs and Set-up**

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<tr>
<td>No minimum amount for donations within a given year.</td>
<td>Sponsoring organizations set the minimum donation required to establish a donor advised fund. DAFs frequently require a minimum donation of $5,000-$10,000.</td>
<td>Industry standards recommend that foundations should have a corpus of $1 million, although some studies(^1) have indicated that over 60% of foundations have less than $1 million in assets. Industry standards point to $10 million as the minimum for a sustainable corpus to support staff working for the foundation.</td>
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**Recommended Minimum Size**

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<td>Establishing a private foundation requires steps such as:</td>
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<td>• Filing articles of Incorporation.</td>
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<td>• Submitting an application to the IRS for EIN and 501(c)(3) status.</td>
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<td>• Requesting state-based tax-exempt status.</td>
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<td>• Establishing a board of directors and required statutory officers.</td>
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<td>It takes approx. 6-9 months for IRS approval of tax-exempt status.</td>
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<td>Regular administration of the foundation includes annual filings with the state and federal government, i.e., 990-PF tax return.</td>
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<td>Donors can make gifts out of their household income or assets, or via planned giving vehicles. Donors making gifts to public charities have a tax deduction rate of 50% of adjusted gross income for gifts of cash and 30% for gifts of stock or property.</td>
<td>Donors can provide a contribution of funds or assets to the sponsoring organization at their convenience, at one time or periodically. Donors making gifts to the foundation have a tax deduction rate of 50% of adjusted gross income for gifts of cash and 30% for gifts of stock or property. These funds are then held in the DAF and can be distributed over time, in keeping with the rules set by the sponsoring organization, which may include a minimum payout. There is no universal legally mandated payout as with a private foundation.</td>
<td>Donors provide a contribution to the foundation for which the donors can take a charitable deduction. Donors making gifts to the foundation have a tax deduction rate of 30% of adjusted gross income for gifts of cash and 20% for gifts of stock or property. Funds can be invested by the foundation and distributed over time. Required minimum annual distribution must be equal to 5% of the foundation’s net investment income, or taxes and penalties apply. (See “What is a private foundation?”)</td>
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2 Deductibility rules and limits may vary based on special legislation. CMF recommends that donors consult with qualified legal or tax counsel to understand the current limits on charitable deductions.

3 Deductibility rules and limits may vary based on special legislation. CMF recommends that donors or DAF holders consult with qualified legal or tax counsel to understand the current limits on charitable deductions.

4 Deductibility rules and limits may vary based on special legislation. CMF recommends that donors and foundations consult with qualified legal or tax counsel to understand the current limits on charitable deductions.
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<td><strong>To Domestic Public Charities:</strong></td>
<td>Allowable.</td>
<td>To Domestic Public Charities: Allowable.</td>
<td>To Domestic Public Charities: Allowable.</td>
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<tr>
<td><strong>To Private Foundations:</strong></td>
<td>Allowable. Tax deduction may vary from direct gifts to public charities.</td>
<td>To Private Foundations: Allowable with expenditure responsibility and so long as there is no control by the donor, advisor or their family members, however this is considered relatively unusual in the field. Many DAF sponsors refuse to make grants to private non-operating foundations.</td>
<td>To Private Foundations: Allowable only with expenditure responsibility (and mandatory spend through if grant is to “count” toward 5% minimum distribution). Considered relatively unusual in the field.</td>
</tr>
<tr>
<td><strong>To Foreign Charities:</strong></td>
<td>Allowable, but charitable deductions may be restricted.</td>
<td>To Foreign Charities: Allowable with expenditure responsibility or equivalency determination. Some DAF sponsors refuse to make international grants.</td>
<td>To Foreign Charities: Allowable with expenditure responsibility or equivalency determination.</td>
</tr>
<tr>
<td><strong>To Individuals in Need:</strong></td>
<td>Allowable, but charitable deductions may be limited.</td>
<td>To Individuals in Need: Not allowed to make contributions to individuals.</td>
<td>To Individuals in Need: Allowable, with careful record keeping.</td>
</tr>
<tr>
<td><strong>Lobbying</strong></td>
<td>Contributions for lobbying are allowable but may not have equivalent charitable deductions as other gifts, depending on recipient organization.</td>
<td>DAF holders may not earmark funds for lobbying, however they may support other advocacy activities and support charities that lobby.</td>
<td>Private foundations may not earmark funds for lobbying, however private foundations may support other advocacy activities and support charities that lobby.</td>
</tr>
<tr>
<td><strong>Scholarships and Grants to Individuals</strong></td>
<td>Donors may make gifts to existing scholarship programs via public charities and educational institutions. Donations made directly to individuals would not be considered charitable.</td>
<td>Scholarships and grants to individuals are not allowable under the IRS regulations for DAFs, but would be permitted in another type of fund at a sponsoring organization (such as a community foundation) so long as exemptions to the DAF definition provided in IRC 4966 are followed. (See “Can a private foundation give scholarships?”)</td>
<td>Private foundations can make scholarships, however the IRS needs to pre-approve the scholarship procedures in advance, consistent with rules required of other private foundations. (See “Can a private foundation give scholarships?”)</td>
</tr>
<tr>
<td>Disaster Grantmaking and Community Relief Efforts</td>
<td>Donors may make contributions to public charities conducting disaster relief.</td>
<td>General rules for DAFs apply, including the ability to make grants for disaster relief. (See “What options are available to foundations interested in disaster grantmaking?”)</td>
<td>Private foundations can implement a disaster grantmaking strategy or use a discretionary grant to address general needs within the community. Self-dealing rules still apply, including restrictions on the disaster program generating business for the company or benefitting a disqualified person. (See “What options are available to foundations interested in disaster grantmaking?”)</td>
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<td>Event Sponsorships</td>
<td>Donors may make gifts to support charitable events, including the purchase of tickets and charity benefit tables.</td>
<td>There is a strict prohibition on DAF grants providing any benefit back to the donor or any advisor. The DAF sponsoring organization may prohibit payment of sponsorships where tickets are involved or may prohibit acceptance of tickets.</td>
<td>Caution should be taken to avoid self-dealing. Donors should not receive a benefit for the foundation’s support of the event, although name recognition is permissible. (See “Can a private foundation support events and sponsorships?”)</td>
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<tr>
<td>To Learn More</td>
<td>Individuals considering gifts should consult with qualified financial, tax and/or legal counsel. Donors should also contact charitable organizations directly to learn more about potential giving opportunities.</td>
<td>Individuals and companies interested in establishing a DAF should contact sponsoring organizations directly to learn more about their unique DAF program. To find a community foundation in Michigan, visit CMF’s list of community foundation members or contact CMF to learn about the community foundation serving your geographic region.</td>
<td>Individuals and companies interested in establishing a grantmaking foundation are invited to contact CMF for more information. CMF also recommends that those interested in starting a foundation should consult with qualified financial, tax and/or legal counsel.</td>
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How can I learn more before giving a donation to a nonprofit?
Donors interested in conducting research (oftentimes called “due diligence”) on nonprofits have a number of options.

- Talk with a nonprofit’s staff or board members to learn more about the organization’s activities and impact in the local community.
- Look at a nonprofit’s website to learn more about the organization’s programs, structure, and partners. Many nonprofits also include a full listing of staff, board members, and annual reports for donors’ review.
- Donors and foundations interested in learning more about individual nonprofits can conduct further research by accessing organizations’ IRS Form 990, which is a publicly available document that includes essential financial and management related information. These forms are available via searchable databases, such as ProPublica’s Nonprofit Explorer and GuideStar (now part of Candid).
- For donors and foundations interested in checking the most up-to-date charitable status of a nonprofit organization, the IRS has a simple Tax Exempt Organization Search tool that is searchable by organizational name or Employer Identification Number (EIN).

What is a community foundation?
A community foundation is a nonprofit grantmaking institution funded by a large group of donors to support their charitable interests within a geographic region. Donors can make gifts to community foundations similar to any other public charity, benefiting from the maximum charitable deduction available for gifts to most other nonprofits. Community foundations have organized funds designed to support fields of interest (i.e. arts, human services, etc.) and specific nonprofits within their designated geographic region. They also hold scholarship funds intended to benefit broad categories of intended recipients. Donors may also establish a donor advised fund at their local community foundation or choose to support a general fund intended to benefit the local region at large. To find a community foundation in Michigan, visit CMF’s list of community foundation members or contact CMF to learn about the community foundation serving your geographic region.

How can I give to a community foundation fund?
Individuals, as well as companies and other organizations, can create a new fund or donate to an existing fund held by a community foundation. Community foundations are 501(c)(3) organizations and donors’ gifts to these institutions have similar tax benefits as donations to other nonprofits, with the exception of certain gifts to donor advised funds (DAFs).

Donors can support the creation of a new fund or support an existing one in any of the following categories:

- **Agency Fund**: Established by a public charity to create a fund at the community foundation for the purposes of establishing an endowment fund.
• **Designated Fund**: Created by donors via a fund agreement to support one or more public charity via general or program support.

• **Donor Advised Fund**: Individual donors give to this fund and recommend its use toward charitable grantees. Community foundation board has final authority over the distribution of funds.

• **Field of Interest Fund**: Established by donors to support areas of interest (i.e. arts and culture, health and human services). Grants determined by an advisory committee established by the community foundation.

• **Scholarship Fund**: Donors can give to established scholarships or create a new fund to benefit individuals. Scholarship criteria must require a large and indefinite “charitable class” of individuals and may not be designed to benefit pre-selected individuals.

• **Special Project Fund**: A fund of the community foundation intended to support a specific project or short-term effort within the local area.

• **Unrestricted Fund**: Designed to support charitable grants at the discretion of the community foundation board.

Community foundations charge a relatively small administrative fee for establishing a fund, as the organizations’ staff handles back office and investment activities, allowing donors to focus on achieving their charitable goals. Those interested in creating a new fund or supporting an existing fund at a local community foundation should contact the organization directly for more information about giving opportunities and fund requirements. To find a community foundation in Michigan, visit CMF’s list of community foundation members or contact CMF to learn about the community foundation serving your geographic region.

**What is a private foundation?**

Private foundations are the default category of 501(c)(3) organizations that are not able to pass as public charities due to their limited number of funders. As a result of the potential influence and control by the funders (individuals or entity), private foundations have a less favorable tax position and far more government scrutiny than public charities. Private foundations face a number of specific federal tax rules that are particular to this type of philanthropic organization, including such regulations as:

- **Required Excise Tax**: Private foundations now have a standardized excise tax of 1.39% on net investment income.

- **Restrictions on Self-Dealing**: Private foundations cannot enter into a financial transaction with a disqualified person. (See “What is self-dealing?” for more information.)

- **Required Minimum Distribution**: Private foundations are required to spend out 5% of their net investment assets annually. Qualifying distributions that count toward the 5% primarily include grants to qualified charities and necessary administrative costs required to make those grants. Foundations that do not meet the 5% threshold face a tax penalty of 30% of the difference.

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5 Federal regulation of private foundations describes penalties associated with each regulation described in this section. CMF recommends that corporations consult with qualified legal or financial counsel to understand how these rules apply to individual organizations or situations.
• **Restrictions on excess business holdings:** Private foundations cannot control businesses, which means that they, together with all disqualified persons, cannot hold more than 20% of the voting stock of a corporation or ownership interest in a partnership or LLC. If the company is controlled by people who are not disqualified persons, the private foundation may apply to the IRS for the right to hold up to 35% of the business. If a private foundation receives a gift or bequest of business stock that exceeds the 20% ownership limit, it has five years to divest those shares.

• **Restrictions on Taxable Expenditures:** Private foundations can face tax penalties for engaging in lobbying, electioneering and voter registration, grants to individuals and grants to non-charities. There are exceptions to these restrictions, but foundation staff should consult with qualified legal counsel before engaging in this activity.

• **Penalties for Jeopardizing Investments:** Private foundations may not make investments that show a lack of reasonable business care and prudence in providing for the short- and long-term financial needs of the foundation for it to carry out its exempt function.

What is self-dealing?
Private foundations are prohibited from engaging in self-dealing, which is defined as any direct or indirect—(A) sale or exchange, or leasing, of property between a private foundation and a disqualified person; (B) lending of money or other extension of credit between a private foundation and a disqualified person; (C) furnishing of goods, services or facilities between a private foundation and a disqualified person; (D) payment of compensation (or payment or reimbursement of expenses) by a private foundation to a disqualified person; (E) transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a private foundation; and (F) agreement by a private foundation to make any payment of money or other property to a government official (as defined in section 4946(c)), other than an agreement to employ such individual for any period after the termination of his government service if such individual is terminating his government service within a 90-day period.

Disqualified persons, in general, are those who are “in a position to exercise substantial influence over the affairs” of the foundation, including substantial contributors (including a related corporation), trustees, directors, officers, other foundation managers, the family members of all of them and certain other entities. These prohibitions apply even if a transaction is financially beneficial to the foundation.

1. All substantial contributors to the foundation,
2. All foundation managers of the foundation,
3. An owner of more than 20 percent of--
   - a. The total combined voting power of a corporation,
   - b. The profits interest of a partnership, or
   - c. The beneficial interest of a trust or unincorporated enterprise, which is, during the ownership) a substantial contributor to the foundation,
4. A member of the family of any of the individuals described in (1), (2), or (3),
5. A corporation of which more than 35 percent of the total combined voting power is owned by persons described in (1), (2), (3), or (4),
6. A partnership of which more than 35 percent of the profits interest is owned by persons described in (1), (2), (3), or (4),
There are certain exceptions to self-dealing, such as a 0% loan from a disqualified person to the foundation or the disqualified person permitting the foundation to use property or facilities at no charge (with some potential ability to cost-share on a pro rata basis if the costs are paid to an independent third party vendor). Disqualified persons may make grants to the foundation, but in most cases they may not be encumbered (such as a donation of property subject to a mortgage). CMF recommends that foundations concerned about potential self-dealing issues consult with qualified legal counsel who regularly work with foundations before entering into any arrangements between the foundation and a disqualified person.

**Can a private foundation hire staff?**
Yes, the foundation can hire staff members to manage day-to-day activities of grantmaking and operations. Staff employed by the foundation must receive “reasonable” compensation for professional and managerial services that are necessary to the foundation carrying out its exempt purposes. Only certain services are deemed to be professional and managerial. To determine reasonable compensation, foundations should look to foundation- and philanthropy-related benchmarking reports.

**Can family members participate in a private foundation’s grantmaking?**
Yes, family members can participate as board members of a private foundation and assist with its grantmaking activities. Family members with professional areas of expertise may also serve as staff or the chief executive. However, the family should consult with qualified external counsel to ensure that these arrangements fit within the legal parameters of foundation activity and expenses.

For families interested in serving on the advisory committees for funds (other than donor advised funds) held at community foundations, disqualified persons (including the donor and his/her family members) may have limited control of these committees and their grantmaking decisions. There is no limit on donors and families controlling the advisors of their own donor advised funds. It is recommended the individual contact the community foundation in which the fund is held to learn more about specific restrictions on donor participation in grantmaking decisions.

**Can a private foundation support events and sponsorships?**
Yes, private foundations can support events and other sponsorship opportunities. However, the foundation should be cautious about sending staff, board members or disqualified persons to attend the event. Staff of the foundation may attend an event if they are carrying out the work of the foundation itself. For example, the staff person or board member may attend to monitor the grantee’s programming or use of funds. However, spouses should not attend unless they have an official position with the foundation. If a sponsorship is purchased by an individual donor or corporation (as opposed to a foundation), then there are not restrictions on who may use the tickets, although the fair market value

7. A trust, estate, or unincorporated enterprise of which more than 35 percent of the beneficial interest is owned by persons described in (1), (2), (3), or (4),
of any benefits provided in exchange for the donation – such as meals and entertainment – will reduce the charitable deduction.

Can a private foundation give scholarships?
Scholarship programs require pre-approval by the IRS. This is typically handled when the foundation receives its charitable status but can be submitted at any time. For more information regarding scholarships and other grants to individuals, see “Navigating Scholarships and Grants to Individuals.”

“Scholarship” for these purposes means:

- Any scholarship or fellowship to be used for study at a qualifying educational organization;
- Certain prizes or awards; and
- Grants or fellowships to achieve a specific objective, produce a report or other similar product or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee.

Scholarship programs should require a large and indefinite “charitable class” of individuals and may not be designed to benefit pre-selected individuals. Additionally, the grant procedures should be objective and non-discriminatory. Corporate-sponsored scholarship programs have additional restrictions. (For more information regarding corporate philanthropy restrictions, see “Choosing a Corporate Philanthropy Approach.”)

What options are available to foundations interested in disaster grantmaking?
Foundations can provide disaster grants in response to federally-declared disasters or local disasters that do not receive a federal emergency declaration. Grantmaking efforts may serve as an extension of a foundation’s standard grantmaking program or follow a special set of procedures that are only followed in the case of a federally qualified disaster. Often these grants are given to efforts within local communities. In some cases, foundations or giving programs may use discretionary funds to fast-track disaster grants. Self-dealing rules still apply, as disaster grants should not be intended to benefit disqualified persons, and there are other restrictions. Disaster grants for individuals, regardless of their source, may not duplicate FEMA or insurance payments to families, may not be used to supplement income and may not cover something that is the responsibility of the employer. Additional information about disaster grantmaking and forms of employee assistance is available in IRS Publication 3833. To learn more about disaster grantmaking, visit CMF’s “Frequently Asked Questions About Disasters: A Resource for Grantmakers.”
RECOMMENDED RESOURCES


ABOUT ASK CMF

This document was authored by Brittany Kienker, Ph.D., Knowledge Insights Expert in Residence for the Council of Michigan Foundations (CMF). Legal aspects of this document were reviewed by Jennifer Oertel, outside legal counsel to CMF. CMF members can find answers to their most pressing questions through CMF’s Knowledge Insights division, including Ask CMF, the Knowledge Center and the Sample Documents Hub. Ask CMF is a free service to CMF members, available through the “Ask CMF” link on the CMF homepage or by visiting https://www.michiganfoundations.org/practice/ask-cmf.

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